

Climex Auction Process and Procedures

1. Why Carbon Emission Rights Auctions?

Climex decided that the best way to jump-start the Carbon Emission Rights market in terms of CDM, JI and Voluntary trading is to set up a Carbon Emission Rights Auction liaising buyers, sellers and investors of CERs, ERUs and VERs.

The goals of the Carbon Emission Rights Auctions are to simplify the complicated nature of the CDM and JI market by standardising the market, creating liquidity, transparency and a level playing field at low costs for both buyers and sellers.

The Carbon Emission Rights Auctions offer sellers the opportunity to present their Projects to a large group of buyers in a very efficient and low cost manner. Within a couple of hours it becomes clear what price buyers are willing to offer. It is up to the seller to decide if he wants to accept that price.

For buyers the Carbon Emission Rights Auction reduces the effort of finding suitable Projects and facilitates the collection and screening of Project Information.

Participating in the Carbon Emission Rights Auction is initially free of charge to both buyers and sellers. Only when there is a Carbon Emission Rights Option and/or Transaction, a Use-related Fee will be charged. Buying and/or selling through the Climex Carbon Emission Rights Auctions can be one of the trade strategies pursued amongst others.

Both buyers and sellers/Project developers are cordially invited to participate in our Carbon Emission Rights Auctions and contact us for further information.

2. About Climex and Climex

Climex is a network organisation to which various parties contribute their knowledge and expertise and is owned by the Rabobank and TenneT. These shareholders have initially started Climex on request of the industry, who wanted a low cost and efficient way to trade amongst each other. The goals are transparency, liquidity and standardisation.

The Climex Trading Platform, launched by Climex, is offering Cleared Spot trading in EU allowances from the start of the EU ETS market on February the 28th 2005.

Climex provides anonymous match making between buyers and sellers and for the Cleared Spot market functions as central counterparty covering the settlement risks. Transactions are fully processed, anonymously and secure, at contractual, financial and administrative levels. The Climex Trading Platform is unique because it is secure and easy to use at low cost for both small and large traders through a secure Internet connection.

The Climex Alliance was initiated by Climex. The Climex Alliance provides a cleared Pan-European Spot market for the trading of Carbon Emissions Certificates within the EU Emissions Trading Scheme. A larger market means more trade, more volume and liquidity, and increased market transparency, from which all involved will benefit.

Comprised of regional partners throughout Europe, the Alliance includes:

- Climex (based in The Netherlands)
- SENDECO2 (based in Spain)
- Vertis Environmental Finance (based in Hungary)
- STX Services (based in The Netherlands)
- APX Power UK (based in the UK)
- APX B.V. (based in The Netherlands)

| APX Power UK and APX B.V., act as central counterparties for the UK and continental Europe respectively.

3. About the Carbon Emission Rights Auction

3.1 Why a Carbon Emission Rights Auction?

Climex understands that sufficient liquidity is important, but difficult to establish when starting to operate a trading platform. Therefore, different means are developed to stimulate the liquidity.

Until now, CERs have not been issued by the CDM-EB as their registry is not functional yet. Therefore, the Carbon Emission Rights Auction has been designed to support bi-lateral forward trades including a limited (60 working days) offline negotiation period on the pre-agreed Term Sheet, which terms and conditions are formalised in the Emission Reductions Purchase Agreement (ERPA).

The Carbon Emission Rights Auctions will operate using the Climex Trading Platform technology.

The first Carbon Emission Rights Auction was held on 25 November 2005. Since then we have organised Carbon Emission Rights Auctions on a regular basis. At the start the emphasis was on Projects from Asia in cooperation with Asia Carbon International B.V. Now, we have expanded by aggregating Projects from other continents and partners and we evolved from CERs to Carbon Emission Rights in general to also include ERUs and other instruments in the Carbon Emission Rights Auctions.

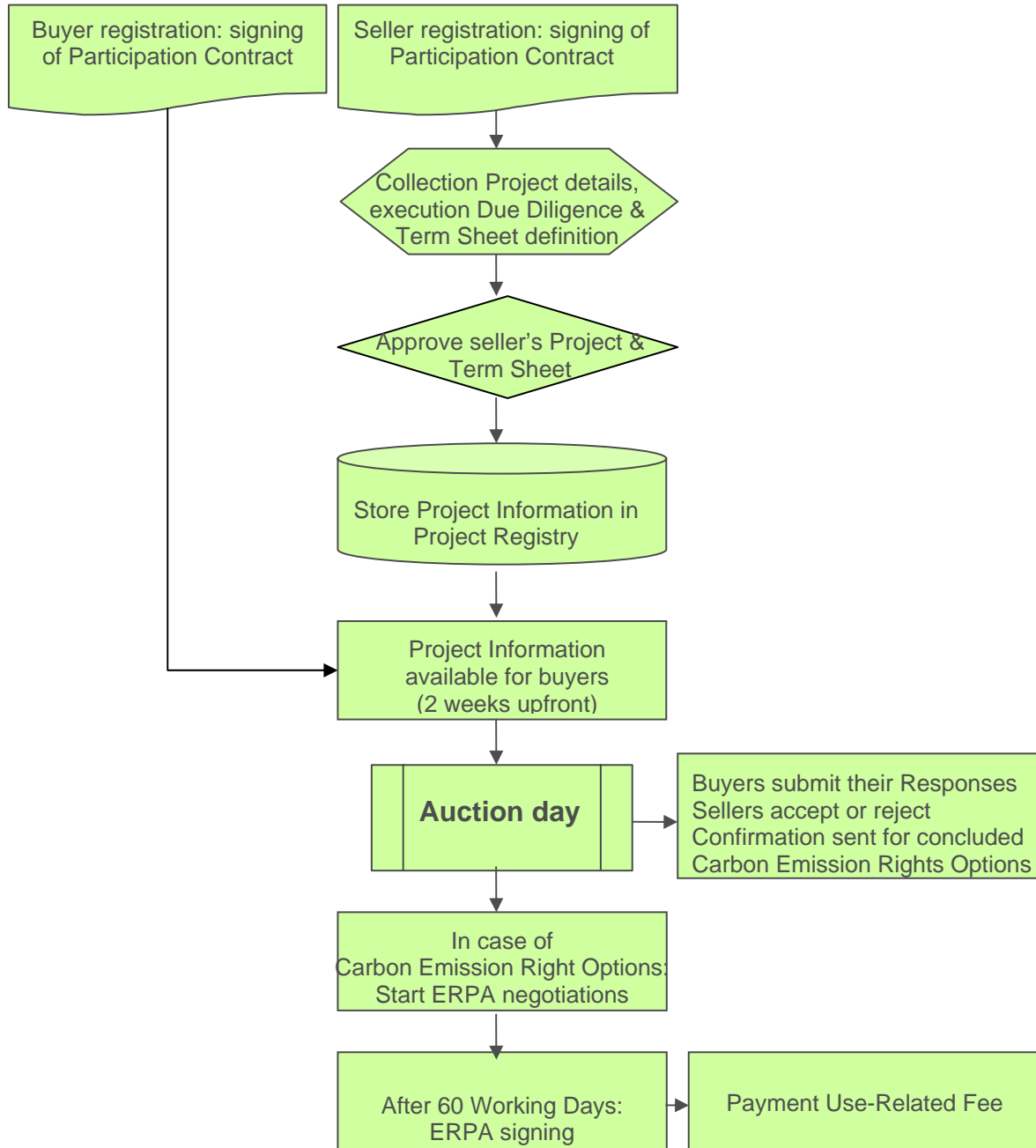
3.2 How does it work?

Carbon Emission Rights Auction dates will be announced to registered buyers and sellers with a minimum notice of 10 working days. Carbon Emission Rights Auctions will also be announced in the press and on the Climex website.

Buyers will always be granted 10 working days to study the Project documentation of the Projects on offer in a specific Carbon Emission Rights Auction. During these 10 days the sellers of a Project guarantee exclusive selling rights to the Carbon Emission Rights Auction. Both buyers and sellers will be granted 10 working days to study the complete list of Participants to an announced Carbon Emission Rights Auction.

The Carbon Emission Rights Auction itself consists of a number of consecutive time-boxes. Price discovery during the Carbon Emission Rights Auction is anonymous to the buyers and sellers which means the identity of the buyer is not disclosed during price discovery but only after the price is set by means of a Confirmation to a Carbon Emission Rights Option and/or Transaction. The sellers are disclosed by means of exposing the required Project Information.

Figure 1. Auction Process



A step-by-step description of the Carbon Emission Rights Auction process is given below:

1. Sellers (Project promoters, Project developers, seller-brokers, and other authorised representatives) and buyers register for participation in the Climex Carbon Emission Rights Auctions by signing the Climex Auction Participation Contract and providing the required information.
2. After successful registration buyers and sellers receive:
 - User ID and password to login to the Internet site where they will be able to view the Project Information,
 - User ID and password to login to the Carbon Emission Rights Auction of the Climex Trading Platform.
3. After registration, sellers provide Climex or a Listing Agent registered with Climex with all Project information (*PDD, Host Country Approval, Validation Reports, Registration, Loan sanction evidence etc*) and insight in the Project's organisational and financial situation. Only Projects with completed project design documents are eligible to participate in the Carbon Emission Rights Auction. One of Climex' Listing Agents will perform a standardised due diligence and will create a Term Sheet together with the seller, describing the conditions under which the Project is on offer.
4. After Climex has approved the Project, Climex shall register the Project in the Project Registry. At its sole discretion Climex may at any time refuse a Project. Climex shall have no duty or obligation to verify any information received from Listing Agent or sellers. Registration does not mean that Climex has accepted or approved the Project Information as being correct.
5. Sellers commit their Project for an announced Carbon Emission Rights Auction and commit to the agreed ten (10) Working Days exclusivity period related to that Project. Sellers offer their CERs/ERUs for a Vintage Period or if possible a Vintage Year. The minimum batch for which a Carbon Emission Rights Option can be concluded is 10,000. For example, if the number of CERs/ERUs for a particular Vintage Year is 30,000 tonnes, the buyer can decide to bid in 3 different quantities for that particular Vintage Year: 10,000, 20,000 or 30,000 tonnes. It is also possible to offer the full Vintage Period for a complete Project for sale only. Sellers guarantee the quantity of CERs/ERUs they offer for Carbon Emission Rights Auction. Therefore, it will often occur that the calculated volume in the PDD is higher than the volume offered for the Carbon Emission Rights Auction. In general sellers will offer a save amount. Buyers who buy a full Vintage Period or a complete Project can acquire the remaining CERs/ERUs through the 'right of first refusal' clause that is included the ERPA template.
6. Ten working days before the Carbon Emission Rights Auction starts, the Project Information will be disclosed to the potential buyers, and the identity of all the potential buyers will be disclosed to the sellers (or their duly authorised representatives).
7. The Carbon Emission Rights Auction will take place in two rounds of 2 hours. The first round is held from 10.00 – 12.00 CET. The second round is held from 12.00 – 14.00 CET. The second round will only take place if there are any Projects or CERs left after the first round. Please note: All the times are in Central European Time.

One round consists of three steps:

- In the first 45 minutes from 10.00 – 10.45 CET the buyers will submit their Responses (place their bid(s)). During this process an on-screen clock will show how much time there is left for bidding. This clock is leading and binding! We advise the buyers to place their bids well before closing time, keeping a safe time margin in mind, in order to avoid the situation of a bid being entered too late because of possible delays in the connection. Climex disclaim responsibility for any errors occurring as a result. The registration time for a bid is the time which appears on the platform clock, when the bid is made.
- In the second 45 minutes from 10.45 – 11.30 CET the sellers will decide which Responses (bids) they want to accept (if any).
- The final 30 minutes are for administration purposes.

The time limit for submitting Responses (placing bids) in the second round is 12.00 – 12.45 CET, the sellers will decide from 12:45 – 13:30 CET and the final 30 minutes are for administration purposes again. It is possible that auction times will change in the future. Registered buyers and sellers will be informed about any changes.

8. All the buyers can bid for each Vintage Period or Vintage Year for the number of CERs they desire based on the maximum available number of CERs included in the Order. It is also possible to submit Responses (to bid) for a complete Project. Article 5.3 of the Climex Auction Trading Rules describes how the sellers may decide on accepting or rejecting the Responses (bids).
9. When a Carbon Emission Rights Option and/or Transaction is established an electronic Confirmation will be sent to both buyer and seller of each individual Carbon Emission Rights Option and/or Transaction to inform them of the Carbon Emission Rights Option and/or Transaction details.
10. Price discovery during the Carbon Emission Rights Auction is anonymous to the sellers, which means the identity of the buyer is not disclosed during price discovery but only after the price is set by means of a Carbon Emission Rights Option and/or Transaction. The sellers will be disclosed by exposing the required Project Information.
11. At the end of the Carbon Emission Rights Auction all the remaining Orders, or the remaining volume per Order, will be removed from the Climex Trading Platform.
12. Upon confirmation from the Climex Trading Platform of the completed Carbon Emission Rights Option and/or Transaction, both seller and buyer have 60 Working Days for fine tuning the details which have not (yet) been agreed upon during the electronic Carbon Emission Rights Auction and to finalise and sign the Emission Reduction Purchase Agreement (ERPA). The terms that have been agreed upon as part of the Carbon Emission Rights Auction (the Term Sheet and buyer, seller, Project, volume, Vintage Period, expiry and price) are not open to discussion anymore.

The ERPA template provided by Climex is the starting point for the negotiations and leaves room for changes only if agreed by both buyer and seller. If for some reason an agreement between both Parties is not reached within 60 Working Days, the Use-related Fees still have to be paid.

13. Negotiating the ERPA is the joint responsibility of the seller and buyer. The Listing Agent or Climex will monitor the progress, but do not play a role in the legal discussions and the content of the negotiation process. These services can be provided, but against extra costs. The rates for these additional services are available.
14. If buyer and seller cannot conclude an ERPA within 60 Working Days after the Carbon Emission Rights Auction for a valid reason, they can request extra time from Climex in writing, stating the reasons for the request and the new deadline. If the extra negotiation time is granted, payment of the Use-related Fee is postponed until the newly agreed deadline.

If the seller terminates the negotiations or defaults and there is no ERPA within the agreed time the buyer does not have to pay the Use-related Fee. If the buyer terminates the negotiations or defaults and there is no ERPA within the agreed time, the seller does not have to pay the Use-related Fee.

4. Examples of sellers' decisions on Responses (bids).

On the Carbon Emission Rights Auction day, during the first round of buyer's responses, potential buyers may submit Responses to the seller's sales orders. All the buyers can bid for each Project or Vintage Period for the volume or quantity they desire based on the maximum available volume or quantity for that Project or Vintage Period.

After the buyers have placed their bids, the sellers have time to accept or reject the bids. Which buyer will be chosen for any particular Project or vintage is based on the maximum

buyer ID	Vintage	Available Lots	Lots Bid	Bid Price in €	Transaction Value
buyer A	2007	3	2	8	€160,000
buyer B	2007	3	1	9	€90,000
buyer C	2007	3	3	6	€180,000

value of the Carbon Emission Rights Option and/or Transaction arising from his bid. For example:

Project Example 1

In this *Project*, and for this *particular vintage*, 2007, buyer C will come up as the highest bidder and the seller will be displayed this highest Carbon Emission Rights Option and/or

buyer ID	Vintage	Standing price	Available per Vintage	Vintages Bid	Bid Price in €	Transaction Value
buyer A	2006 - 2010	9	30.000	all	8	€ 1.200.000
buyer B	2006 - 2010	9	30.000	2006 - 2007	10	€ 600.000

Transaction value on-screen and also be shown the price and the lots which add up to this Carbon Emission Rights Option and/or Transaction value.

Project Example 2

In this *Project*, buyer A will come up as the highest bidder and the seller will be displayed the accumulated Carbon Emission Rights Option and/or Transaction value for the Project

on-screen and also be shown the price and the vintages which add up to this Carbon Emission Rights Option and/or Transaction value.

Even though the price buyer A has offered is below the standing price, while at the same time buyer B has offered a price above the standing price for certain vintages, buyer A's bid is still came up as the highest bid, because Maximum Project Value is leading.

In case the seller does not accept the Carbon Emission Rights Option and/or Transaction value for the complete Project, he can start looking at the bids for the individual vintages and decide to accept vintages with a certain price.

If in this example buyer A's bid is rejected, the seller will need to accept buyer B's bid because it is more than the standing price. The seller is not allowed to accept buyer B's

buyer ID	Vintage	Available Lots	Offer Price in €	Lots Bid	Bid Price in €	Transaction Value
buyer A	2007	3	6	2	8	€160,000
buyer B	2007	3	6	1	8	€90,000

bid and take the remaining vintages of buyer A (unless buyer A explicitly agrees), because buyer A has made an offer for the complete Project.

Project Example 3

In this *Project* and for this *particular vintage, 2007*, buyer A + B will come up as the highest bidders but in the order of entry, the first entrance being the highest. The priority of the Delivery Schedule of CERs concerning the vintage 2007 is defined by the timing of submitting the bid by the buyer.

(a) Subject to item 13 below, a Carbon Emission Rights Option and/or Transaction is final as soon as the seller has accepted the bid and the Carbon Emission Rights Option and/or Transaction appears on screen. An electronic confirmation is sent to both buyer and seller of each individual Carbon Emission Rights Option and/or Transaction to inform them on the details of the Carbon Emission Rights Option and/or Transaction.

(b) For sales orders that have not been transacted, a second round of buyer responses will be carried out and the buyers can continue to submit responses to the sales orders entered. The decision making process of the seller is identical to the first round. An electronic confirmation is sent to both buyer and seller of each individual Carbon Emission Rights Option and/or Transaction to inform them on the details of the Carbon Emission Rights Options and/or Transactions.

(c) At the end of the Carbon Emission Rights Auction all the remaining sales orders, or the remaining volume per sales order, will be removed from the Climex Trading Platform.

5. How do you benefit?

5.1 Transparency

The Carbon Emission Rights Auction offers the highest degree of transparency. Both buyers and sellers can view buyer's Responses to the sales Orders submitted by the sellers. Besides, all the Project Information, seller's background and the buyer's related information are provided to the Participants.

5.2 Price discovery for buyers

Individual negotiations are time consuming and remain lopsided. The Carbon Emission Rights Auctions provide an opportunity for the Projects to be subjected to buyer's scrutiny and their judgement regarding the price they can offer. In addition, as the buyer's price related Responses (bids) are for the same Project, it leads to the price discovery of many buyers for a single Project reflecting their perception on the Projects and the Project's requirements.

5.3 Price discovery for sellers

For the first time in the carbon market, the Climex Trading Platform provides an opportunity for the sellers to find out which price buyers are willing to pay for the Carbon Emission Rights derived from each Project. It also allows the sellers to understand the difference in price offered for an EU Allowance versus a CER/ERU based on the fact that each product is a different one and has a different use in the global current market.

5.4 Low cost

The overall efforts and time consumed for concluding an ERPA is significantly reduced through the Carbon Emission Rights Auction. At the same time the charges for using the Climex Trading Platform are kept very low.

5.5 Distribution Channel

The buyer's access to the seller's Projects is many-fold when participating on the Climex Trading Platform. At the same time buyers are facilitated by the provided enhanced access to many sellers' Projects which will simplify the decision to purchase.

6. Eligibility Criteria

Buyers who successfully register as Participants with Climex are allowed to participate in the Carbon Emission Rights Auction.

Only sellers possessing PDDs are eligible for participating in the Carbon Emission Rights Auction. Sellers should provide the following documents/information for facilitating the approval process:

- (i) Project Design Document (PDD)
- (ii) Brief description of the company and its activities
- (iii) Information on creditworthiness (financial closure, personnel assessment, debt availability, bank letter, etc.)
- (iv) Business bank account details
- (v) Company annual report/Audited financial statements
- (vi) Technology service provider details
- (vii) Project milestones
- (viii) Project approvals (power purchase agreements or sale agreement, all local authority approvals for implementing the Project, when applicable)
- (ix) Project financing related documents (including loan sanction letter when applicable)
- (x) DNA Project approval letter (if available)
- (xi) Validation report (if available)
- (xii) Legal contacts
- (xiii) Authorisation/Mandate letter for a legal representative authorising to carry out the Carbon Emission Rights Auction on their behalf (when applicable),

- (xiv) Authorisation/Mandate letter for the Listing Agent authorising to carry out the due diligence for the Carbon Emission Rights Auction on their behalf,
- (xv) all other information necessary for the Listing Agent to execute the due diligence and to create the Term Sheet in accordance with the seller.

In addition, the sellers shall:

- (a) Not have any record of repeated failure in complying with their local regulatory requirements including disqualification of monitoring and baseline methodology.
- (b) Not have been subject to an order of statutory disqualification or an order of similar effect issued by a regulatory authority in the country of their domicile.

7. Listing Agent role

After signing the Participation Contract, sellers will be brought into contact with one of the Listing Agents under contract with Climex. In some cases this contact will have already been established and sometimes the Listing Agent will have already supported the seller in subscribing to the Climex Carbon Emission Rights Auctions.

The Listing Agent will execute due diligence on the sellers and the Projects in order to assist in achieving completeness and correctness of the Project Information for Projects that are suitable to participate in the Carbon Emission Rights Auctions. Sellers remain responsible for the correctness, completeness and the reliability of their Project Information. The Listing Agent is not allowed to indemnify sellers for the Project Information they provide.

The Listing Agent supports the sellers with the complete process before and during the Carbon Emission Rights Auction. In case of a Carbon Emission Rights Option and/or Transaction the Listing Agent monitors the ERPA negotiations.

Post Carbon Emission Rights Auction services are not included in the Use-related Fee the seller and buyer have to pay. Prices for additional post Carbon Emission Rights Auction services are available.

8. Fees and Payments

8.1 Use-related Fee

Participating in the Climex Carbon Emission Rights Auctions is free of costs to both buyers and sellers. Only when there is a Carbon Emission Rights Option and/or Transaction, the buyer and seller involved in that Carbon Emission Rights Option and/or Transaction have to pay a Use-Related Fee. This Carbon Emission Rights Option and/or Transaction fee will be invoiced 60 Working Days after the Carbon Emission Rights Auction date and is due within fourteen (14) days.

If the buyer or seller has a valid reason for not concluding the ERPA the Use-related Fee will be waived for that party, but only if the reason has been submitted to Climex in writing and was accepted by Climex.

The Party (buyer or seller) who does not have a valid reason is still obliged to pay the Use-related Fee.

Valid reasons for not concluding the ERPA are:

- The seller has not provided accurate and/or complete information (this is a valid reason for the buyer);
- The 'other' Party cannot provide sufficient credit guarantees;
- The 'other' Party is bringing in extra requests that have not been communicated or made transparent up front.

Transaction volume	Transaction fee	Extra for payment upon delivery with escrow
< 1,000,000 CERs	1.75 % of Carbon Emission Rights Option and/or Transaction amount	1.75 % of Carbon Emission Rights Option and/or Transaction amount
> 1,000,000 CERs	1.00 % of Carbon Emission Rights Option and/or Transaction amount	1.00 % of Carbon Emission Rights Option and/or Transaction amount

8.2 Project Listing fee

Climex charges the sellers a Project Listing fee for listing the Project in the Project Registry. The charges are as follows:

Activity	Registration & Listing Fees
Listing of 1 to 4 Projects annually	250 Euros per Project
Listing of 5 to 9 Projects annually	200 Euros per Project
Listing of 10 or more Projects annually	160 Euros per Project
CERs listed per Project	Additional Registration & Listing Fees
> 100,000 CERs per Project	20% additional fee per Project
> 1,000,000 CERs per Project	40% additional fee per Project

9. FAQs

(a) What kind of contract will be used for settlement?

An Emission Reduction Purchase Agreement, similar to a Bilateral Forward contract: In Bilateral Forward Trading you agree with another buyer or seller that you will buy or sell the CERs to or from the other Party in the future at a price that you agree upon at that time. In Bilateral Forward Trading, the identity of the counterparty will be disclosed once you have concluded the Carbon Emission Rights Option and/or Transaction. That is, an ERPA will need to be signed between the buyer and the seller as per the terms and conditions agreed upon. Should anything go wrong from the moment of agreement until the moment of expiry of the contract, both parties have to recourse each other

The reason to prefer this contract to a “Cleared Forward Contract” where the risk is borne by a central counterparty is the difficulty of finding a central counterparty willing to take on this transaction risk due to the fact that CERs are not yet issued and CDM-EB still needs to organise the registry and the International Transactional Log. However it is possible that after carrying out a certain number of Carbon Emission Rights Auctions a “track-record” of consistent Carbon Emission Rights Options and/or Transactions could be established to convince a potential central counterparty to take on the risk.

(b) Who will register the sellers?

Sellers can approach Climex directly if they want to participate in Carbon Emission Rights Auctions or they can join into a Carbon Emission Rights Auction through one of the Listing Agents. All sellers sign up with Climex through a Participation Agreement. The Project

Information is submitted by the seller, with assistance from the Listing Agent, and is stored in a Project Registry and made available to the buyers.

(c) Why are the Projects divided into Vintage Periods?

In order to establish liquidity in the CER market and to facilitate price discovery for the Projects in terms of what buyers are willing to pay for Projects based on the delivery risks of each Project in any particular Vintage Period. Another reason is that in order to make the CER a “fungible commodity” even in the primary market it is highly desirable to standardise the way in which the CER is traded on an exchange.

(d) What happens to Projects that deliver less than 10,000 CERs per year?

Such a Project may in what may be example will **Small scale**

Vintage	Available
2006-2007	10,000
2008-2009	10,000
2010-2011	10,000

still be sold in batches of 10,000 CERs called a “Vintage Period”. The following illustrate this:

Project activity of 7,000 CERs per year

This means that only a maximum of 30,000 CERs over 3 Vintage Periods will be sold at a Carbon Emission Rights Auction.

(e) What happens to the balance of CERs which do not fit into the batches of 10,000 CERs?

Balance CERs that are not sold at Carbon Emission Rights Auction because they do not fit into the batch size of a Vintage Period are offered to the largest or first in line buyer of that Vintage Period on a ‘right of first refusal’ basis. The ‘right of first refusal’ is a clause in the ERPA template.

9. Contact List

For further information, all potential buyers and sellers please contact:

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